



**United States
Department of
Agriculture**

**Risk
Management
Agency**

Federal Crop Insurance: A Program Update

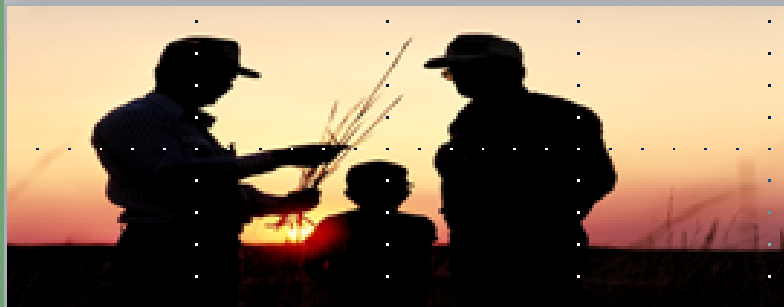
RMA Administrator Bill Murphy

Rural Community Insurance Services (RCIS)

San Diego, CA

April 7, 2011





2010 National Business Summary

Federal Crop Insurance Program

Liability

\$78 Billion

Acres Insured

256 Million

Total Premium

\$7.6 Billion

Indemnity (Claims Paid So Far)

\$4.1 Billion

Loss Ratio CY 2009

.54



Program Growth: Liability By Crop

2010 Crop Ranking by Value

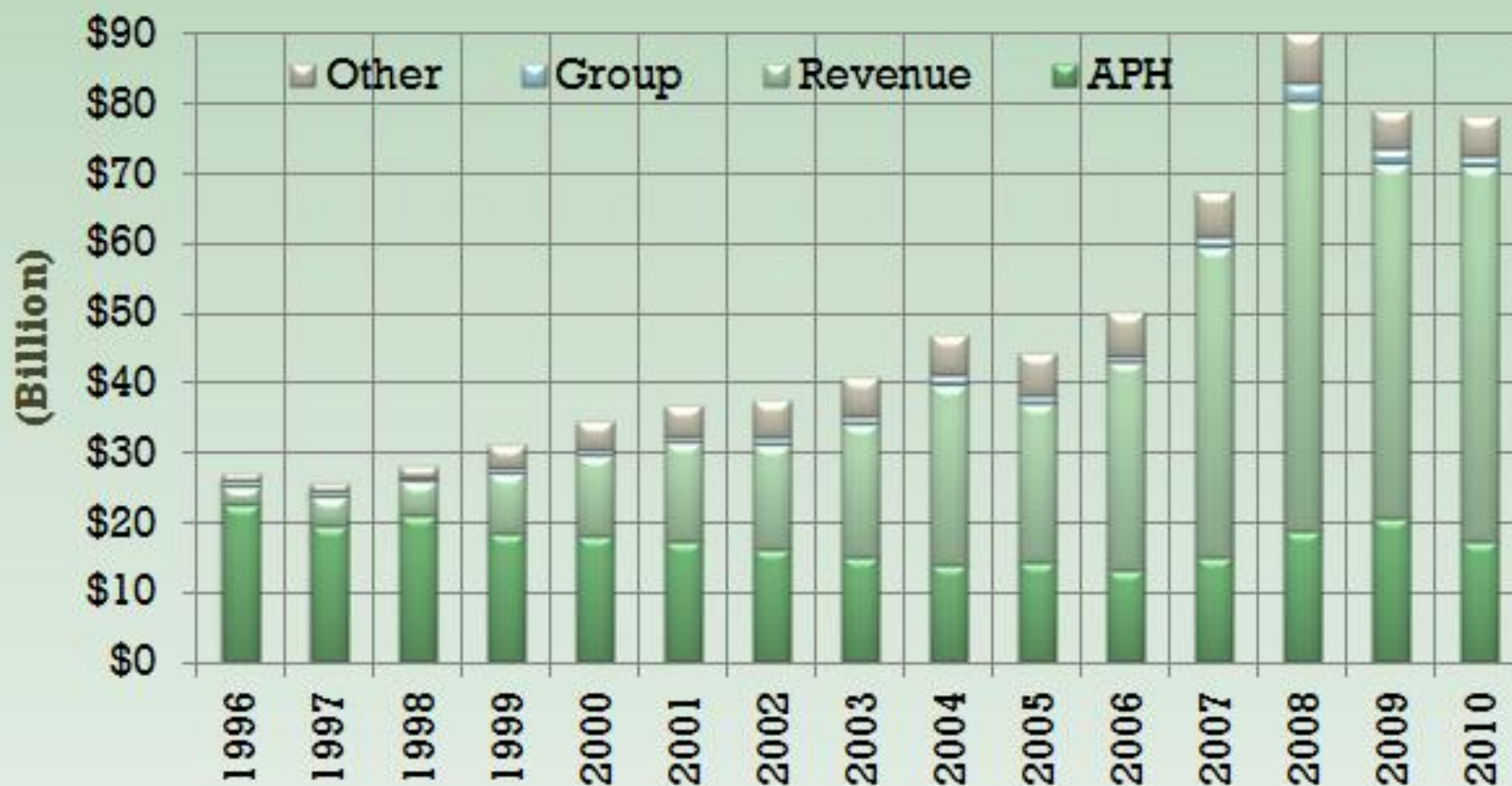
(as of Mar. 24, 2011)

<u>Crop</u>	<u>Crop Liability (\$ Mil.)</u>	<u>Percent of Total</u>
Corn	\$31,661	40.6%
Soybeans	\$17,957	23%
Wheat	\$6,416	8.2%
Cotton	\$2,852	3.7%
Nursery (FG&C)	\$2,795	3.6%
Citrus	\$2,124	2.7%
Rice	\$1,221	1.6%
Potatoes	\$959	1.2%
All Others	\$11,947	15.3%
Total	\$77,932	100.0%



Program Growth: Liability by Insurance Plan

Liability by Plan Type





Ongoing Efforts: Rating Methodology Review

Rating Methodology Review

- RMA's general approach to premium rating is appropriate
 - Consistent with actuarial principles
- Review posted on RMA's Website
- RMA's rating methodology, and supporting documentation also available

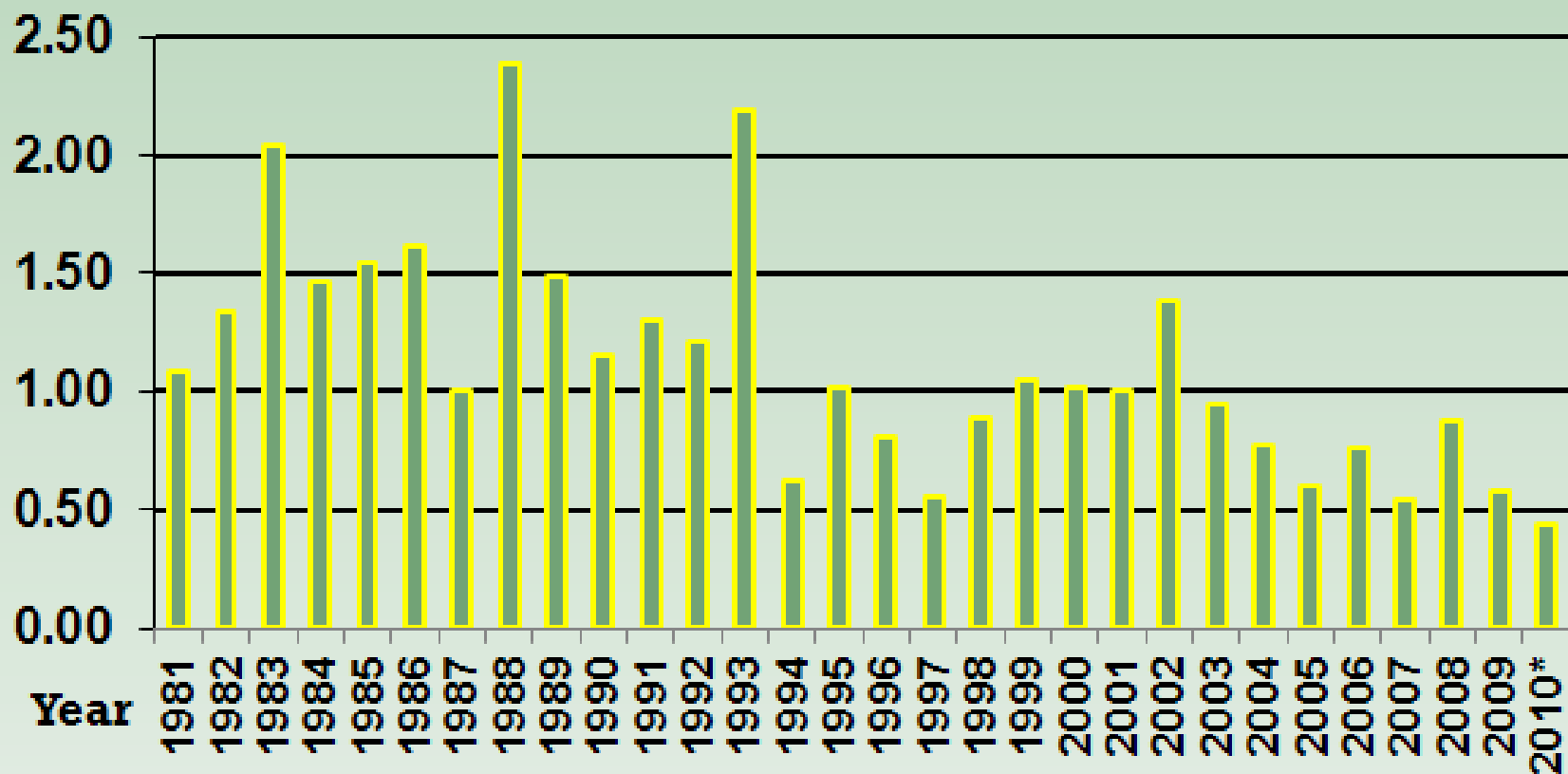


Ongoing Efforts: Rating Methodology Review

Rating Methodology Review

- Review of Historical Loss Experience
 - Adjust to reflect current T/P mix
 - Adjust to reflect units
 - Alternative weighting of years
 - Based on weather data
- Work Underway by Contractor – Sumaria

FCIC Loss Experience, 1981-2010

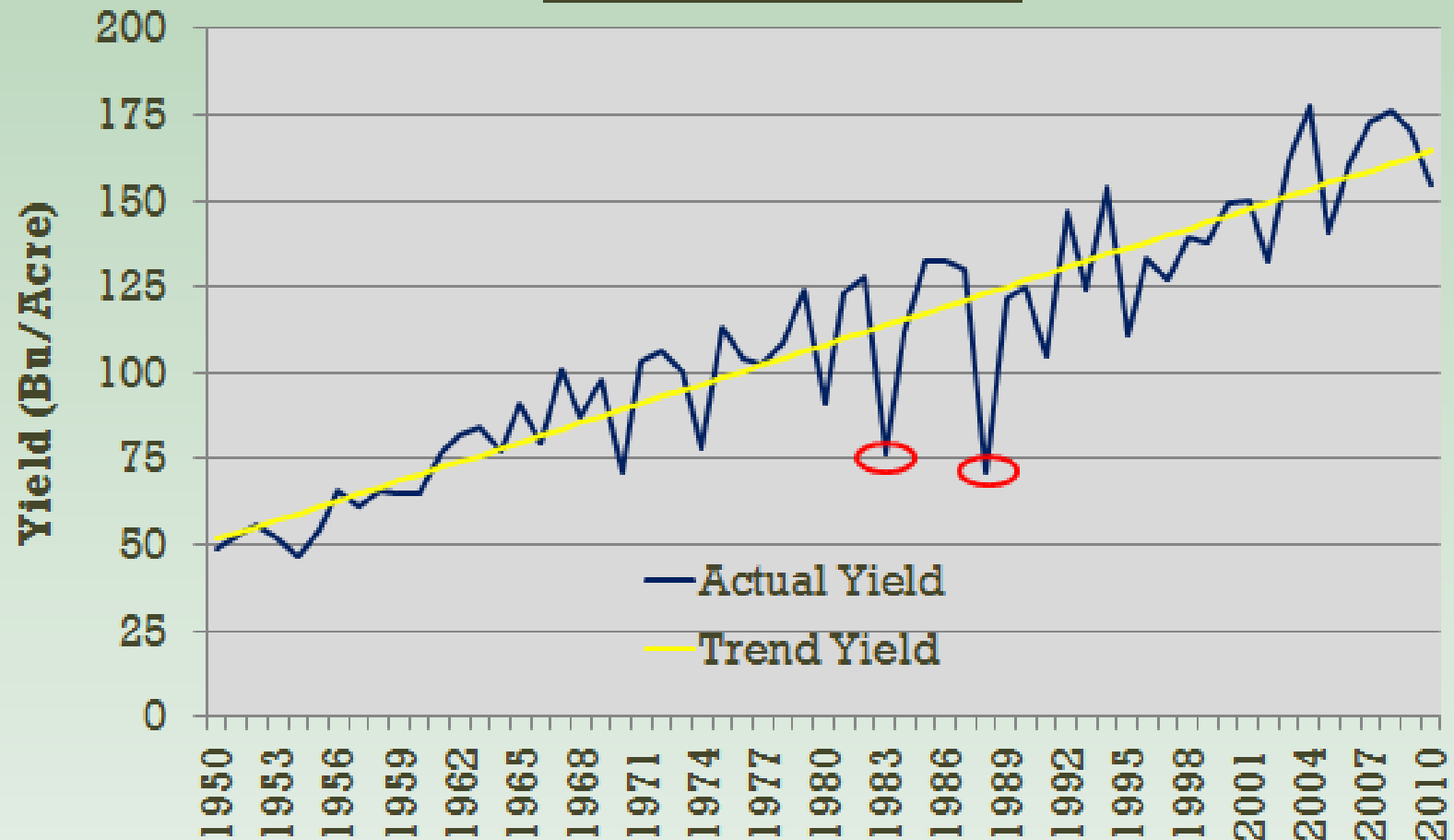


*As of January 10, 2011



Ongoing Efforts: Rating Methodology

Illinois Corn Yield





Catalysts for APH Change on the Horizon

- Producer/congressional demands for program improvements
- Greater use of farmer's own actual production history
- Permanent land descriptors with a permanent production history attached to the land
- Technological innovation – GIS & GPS, mapping, remote sensing, yield monitors etc. for data reporting, acreage measurements, etc.




Program Interface with the Producer

- Acreage/Crop Reporting Streamlining Initiative
(Departmental Charter with USDA cross functional representation)
- Objective: Establish a common USDA framework for producer commodity reporting in support of USDA programs
 - Establish data standards of information used for producer commodity reporting
 - Report it once
- Increase consistency between USDA programs
- Facilitate greater data sharing between Agencies



Program Interface with the Producer

- Current programs
 - Labor-intensive
 - Imposes significant reporting burden on producers, agents, and AIP's
 - Provides opportunities for error
- New technologies offer significant potential for
 - Reducing manpower requirements
 - Increasing efficiency
 - Reducing costs
 - Improving program integrity
 - 'Softening' county boundaries



Comprehensive Information Management System (CIMS)

- 2002 Farm Bill Initiative to develop a system to provide timely access to data for administering USDA programs
 - Utilize Common Land Unit (CLU)
 - Standardize reporting of entity, location, crop names, codes, reporting dates, business reporting requirements, production history, etc.
 - AIP's and FSA now can access



Technology Impacts to Agriculture

- New technologies can now incorporate real time location reporting
 - Integrated yield monitors
 - Real-time reporting of production data
 - Integrated acreage counters
 - Real-time reporting of planted acreage
 - Field/soil mapping
 - Marry NRCS soil and hydrology data to field-level data



Technology Impacts to Agriculture

■ Issues & hurdles

- Assess potential benefits, limitations, reliability, accuracy, and practicality
- Development of consistent and uniform standards across vendors for collection and reporting of data to multiple USDA agencies
- Assuring proper calibration and integrity of data so can't be manipulated, modified from the original readings/output
- Compatibility with automated systems of AIP's, RMA and FSA to facilitate transmission and sharing of data



Technology Impacts to Agriculture

- Where we are currently:
 - 2011 Crop Insurance Handbook allows yield monitors as acceptable production report
 - Allows for separation of production from non-irrigated corners of a center pivot
 - 2011 Loss Adjustment Manual planned to allow yield monitors as acceptable production for claims
 - Continue to engage with technology vendors
 - Common interfaces
 - 'USDA' application
 - Appropriate standards, procedures, etc.



State of APH Program

- In 2009, APH-based programs accounted for:
 - 93 percent of all policies earning premium
 - 85 percent of all program liabilities
 - 91 percent of all premiums
- Fundamental basis of APH program is sound and does not require significant overhaul but:
 - Does not reflect advances and capabilities in data, technology, etc.
 - Need to reduce administrative burden, provide more appropriate insurance guarantees, and improve actuarial efficiency and program integrity



Goals of APH Program Review

- In 2008 RMA established internal working group to conduct comprehensive evaluation of APH program. Specific objectives were:
 - Simplification – simplify administration, reduce complexity, and provide greater clarity/consistency
 - Efficiency – reduce costs, resource requirements, and personnel demands
 - Integrity – eliminate or mitigate effects of program vulnerabilities
 - Innovation – adapt new/forthcoming technological innovations as appropriate



APH Program Concerns & Issues

- All records for a producer submitted to RMA annually:
 - Administratively burdensome on program stakeholders
 - No consistency or continuity across years
 - Tracking producers across years is an exercise in frustration
 - Time & resources required for such
 - Data/information lost in matching process




APH Program - Permanent Database Concept

- Two permanent historical databases constructed and maintained, one for producer and other for land
 - Reside with RMA
 - Include acreage, yield, premium, liability, indemnity, etc.
 - Land descriptor would be CLU
 - Producer descriptor would be SSN
 - Insured's data would be annually reported with each years new experience simply added to previous history



APH Program - Permanent Database Concept

- All producers required to annually report production
 - Group plan policyholders would be required to report production
 - Production reporting tied to current year's policy, not next year's policy
 - Data contained in permanent databases would be used for all program purposes, e.g., establishing guarantees, etc.
 - Historical data could not be 'lost' by insured/agent



APH Program - Permanent Database Concept

- Benefits include:

- Simplify production reporting requirements for producers
- Enable efficient use of data mining capabilities to identify possible misreporting or fraud
- Required production reporting would support data sharing across USDA



Information Technology Modernization (ITM)

- Designed to accommodate new business rules
 - Permanent databases
 - Annual updates
 - Consistent file structure
 - Reporting of only necessary data elements
 - Operational database



Program Update: Agency Accomplishments

Some agency accomplishments in the past year:

- Proposed Rule: Good Performance Refund (GPR)
- SRA
- LGM-Dairy
- Expanded PRF
- Partnership & Cooperative Agreements
- Louisiana Sweet Potato Program approved
- Soybean coverage expands in NY
- Canola expansion in OK/WA
- Cottonseed endorsement
- COMBO Rule
- Organics



Organics – changes for 2011

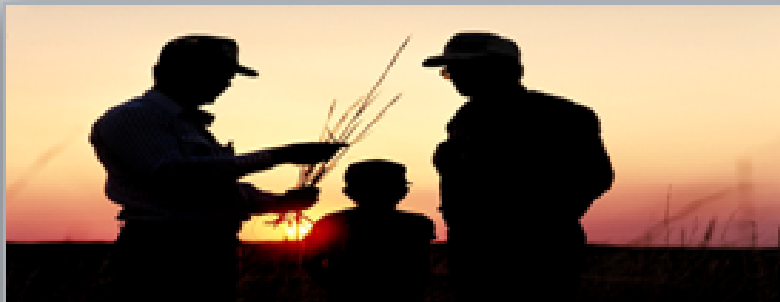
- Organics – Review Rating and Pricing
 - Contracted studies posted on August 30, 2010
 - If certified organics, must use Organic Price
 - Organic prices implemented for
 - Corn/Cotton/Soybeans
 - Processing Tomatoes
 - Rating surcharge eliminated
 - Figs/Macadamia Tree/Pears/Prunes/TX Citrus
 - Tree/TX Citrus Fruit
 - Fl Citrus Fruit/FL Fruit Tree/Nursery/Peppers



Program Update

Whole Farm & Enterprise Unit Pilot Program

- Authorized by 08 Farm Bill
- Gives farmers same dollar subsidy as for basic and optional units, resulting in subsidy increases of more than a third for most coverage levels
- Resulted in significant increases in enterprise units from 2008 to 2009
- No increase in whole farm units



Program Update

Percent of Liability by Type of Unit for 2010*

Crop	Enterprise	Basic	Optional
BARLEY	18%	21%	61%
CANOLA	23%	13%	64%
CORN	70%	19%	11%
COTTON	27%	23%	50%
FLUE CURED TOBACCO	52%	15%	34%
GRAIN SORGHUM	28%	35%	38%
RICE	41%	19%	40%
SOYBEANS	49%	16%	35%
SUNFLOWERS	22%	31%	47%
WHEAT	10%	63%	26%
Total	45%	17%	38%

*as of January 2011



Other Projects on the Horizon

- AGR for Beginning Producers – Feasibility Report
- Study on Efficacy of Pack Factors
 - Development of software aid
 - New factors for Wheat, Corn, Sorghum, Soybean, Oats and Barley
 - Final pack factors and software scheduled for release late 2013

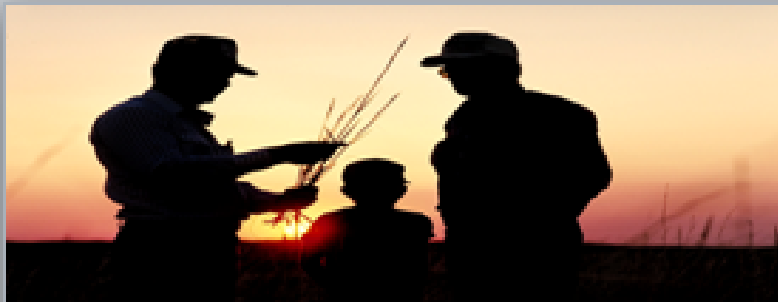
PTY ND Pilot

- Board approved North Dakota PTY (ND-PTY) Pilot Program for the 2007 through 2011 crop year
- ND-PTY allows use of the producer's APH to establish a proxy yield for units with less than 4 years of actual history rather than the published county T-Yield



PTY ND Pilot

- Pilot Program Evaluation Underway
- Report under RMA Review
- FCIC Board of Directors will consider status of pilot



New Product Development

RMA Internal Development Process

Average Total Timeframe to Develop Pilot Program – 3 years





New Product Development

New Product Development: 08 Farm bill Introduces Concept Proposals

- Allows advanced payment for new crop insurance ideas
- Proposal eventually submitted as a 508(h)
- Proposals are confidential until final product is approved by the FCIC Board of Directors
- Numerous Concept Proposals already received



New Product Development

Concept Proposals

- 20 Concept Proposals submitted to FCIC Board
- 12 Approved for expert review
- 9 Funded
- 4 Resubmitted as 508(h)

RMA's Pilot Programs

- Twenty-One Pilot Programs Operating
- Two Approved for Conversion to Regulatory
 - Forage Seed
 - Processing Chili Peppers
- Three Pilots Approved for Crop Year 11/12
 - Sesame – Implemented 11/30
 - TX/OK
 - ARH Strawberry – Implementing by 4/30
 - CA
 - APH Grass Seed – Implemented 6/30

RMA's Pilot Programs

Program Evaluations initiated for:

- Florida Fruit Tree
 - Underway
- Cultivated Clam
 - Underway
- Nursery and Nursery Price Endorsement
 - Soliciting



New Product Development

Private 508(h) Programs

- Fifteen 508(h) Programs Operating
- Three 508(h) products implemented CY11
 - Cottonseed Price Endorsement
 - Fresh Market Beans
 - Louisiana Sweet Potato



Data Mining

- Efforts of past 6 years yield extraordinary results
- CBO: “Over 1.6 billion in cost avoidance since inception”
- Application of satellite imaging and remote Doppler radar cited in profession and legal studies and cases
- Company participation



Ongoing Efforts: Prevented Planting in Prairie Pothole Region

Prevented Planting in the Prairie Pothole Region

- RMA is working to address situations where producers receive prevented planting payments for several years in a row on the same acreage
- Almost all cases were in the Prairie Pothole Region (MT, ND, SD, MN, and IA)
- Billings and St. Paul Regional Offices have held 4 listening sessions this winter in the region
- RMA proposing a Special Provisions of Insurance (SPOI) Statement for the 2012 crop year
 - This would basically not allow acreage to be eligible for preventing planting coverage if there was PP received on that land 3 years in a row



Ongoing Efforts: Status of SRA Implementation

Status of SRA Implementation

- Few lingering questions on agent compensation
- Agents have requested discussion
- Delivery cost study
 - Obtained funding
 - Have begun developing Request for Proposal and Statement of Work

Thank You

*Bill Murphy
Administrator
Risk Management Agency*